

**STATE OF UTAH INSURANCE DEPARTMENT  
FINANCIAL EXAMINATION REPORT**

**OF**

**UTAH MEDICAL INSURANCE ASSOCIATION**

**OF**

**SALT LAKE CITY, UTAH**

**AS OF**

**DECEMBER 31, 2003**



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December 20, 2004

Honorable Alfred W. Gross, Commissioner  
Chair, Financial Condition (E) Committee, NAIC  
State Corporation Commission  
Bureau of Insurance  
Commonwealth of Virginia  
P.O. Box 1157  
Richmond, Virginia 23218

Honorable John Morrison, Commissioner  
Secretary, Western Zone, NAIC  
Montana Department of Insurance  
840 Helena Avenue  
Helena, Montana 59601

Honorable Merwin U. Stewart, Commissioner  
Utah Insurance Department  
State Office Building, Room 3110  
Salt Lake City, Utah 84114

In accordance with your instructions and in compliance with Utah Code Annotated (U.C.A.) Title 31A, an examination was conducted as of December 31, 2003, of the financial condition and business affairs of

**UTAH MEDICAL INSURANCE ASSOCIATION**

of  
Salt Lake City, Utah

an unincorporated interinsurance exchange, hereinafter referred to as the Association.

**SCOPE OF EXAMINATION**

Period Covered by Examination

The last examination was made as of December 31, 2000. The current examination covers the period from January 1, 2001, through December 31, 2003, including any material transactions and/or events occurring subsequent to the examination.

### Examination Procedure Employed

The examination was conducted to determine compliance with accounting practices and procedures in conformity with the applicable laws of the state of Utah, insurance rules promulgated by the state of Utah Insurance Department (Department), and Statements of Statutory Accounting Principles (SSAPs) contained within the Accounting Practices and Procedures Manual promulgated by the National Association of Insurance Commissioners (NAIC).

The examination included a general review and analysis of the Association's operations, the manner in which its business was conducted during the examination period, and a determination of its financial condition as of December 31, 2003. Assets were verified and valued, and liabilities were determined or estimated.

The Association retained a certified public accounting firm to audit its financial records for the years under examination. The firm allowed the examiners access to requested work papers prepared in connection with its audits. These work papers were utilized by the examination on a limited basis in the verification of certain balance sheet accounts and as a supplement to the procedures performed during the examination.

A letter of representation, certifying that management has disclosed all significant matters and records, was obtained from management and has been included in the examination work papers.

### Status of Adverse Findings, Material Changes in the Financial Statement, and Other Significant Regulatory Information Disclosed in the Previous Examination

The Association has addressed all important points and recommendations noted in the prior examination report.

## **HISTORY**

### General

The Association was organized November 20, 1978, as an unincorporated interinsurance exchange to provide medical professional liability insurance and related premises liability insurance. The Association commenced business in the state of Utah on December 1, 1978.

The Association is an insurer operating under the provisions of U.C.A. §31A-5-108. The Association is managed by its attorney-in-fact, USMA Insurance Management Company, a wholly owned subsidiary of the Utah Medical Association and organized for the purpose of acting as attorney-in-fact for the Association and its members.

During the period covered by this examination, there were no amendments made to the Association's rules and regulations.

#### Dividends to Policyholders

The Association neither declared nor paid any dividends during the examination period.

#### Management

The membership of the Association elects the board of governors for three-year staggered terms. The rules and regulations of the Association bestow overall supervision to the governors consisting of twelve individuals. The following governors were serving as of December 31, 2003, and are identified below by date of expiring terms:

<u>December 31, 2004</u>	<u>December 31, 2005</u>	<u>December 31, 2006</u>
R. Chad Halversen, MD Salt Lake City, Utah	Brent K. Lind, MD American Fork, Utah	Kelly L. Banks, MD Bozeman, Montana
Douglas R. Mower, MD American Fork, Utah	Anthony W. Middleton, MD Salt Lake City, Utah	Scott E. Bingham, MD Provo, Utah
Russell B. Shields, MD Bountiful, Utah	Mark S. Shockey, MD Salt Lake City, Utah	Michael P. Collins, MD Salt Lake City, Utah
Randall J. Stockham, MD Murray, Utah	Thomas S. Weed, MD Salt Lake City, Utah	James B. Stinson, MD Salt Lake City, Utah

Officers serving at December 31, 2003, were as follows:

<u>Name</u>	<u>Title</u>
R. Chad Halversen, MD	Chairman
Anthony W. Middleton, MD	Vice Chairman
Kelly L. Banks, MD	Secretary
Brent K. Lind, MD	Assistant Secretary

#### Conflict of Interest Procedure

During the period covered by the examination, governors and officers of the Association completed conflict of interest statements annually. No exceptions were noted.

### Corporate Records

Corporate records generated during the examination period were reviewed. The records consisted of minutes from the meetings of the board of governors and members. The minutes contained detailed information about the Association including current events, governor and officer elections, investment transactions and regulatory issues. In general, the minutes adequately approved and supported the Association's transactions and events.

The prior examination report as of December 31, 2000, was distributed to the governors in May 2002.

### Acquisitions, Mergers, Disposals, Dissolutions, and Purchases or Sales through Reinsurance

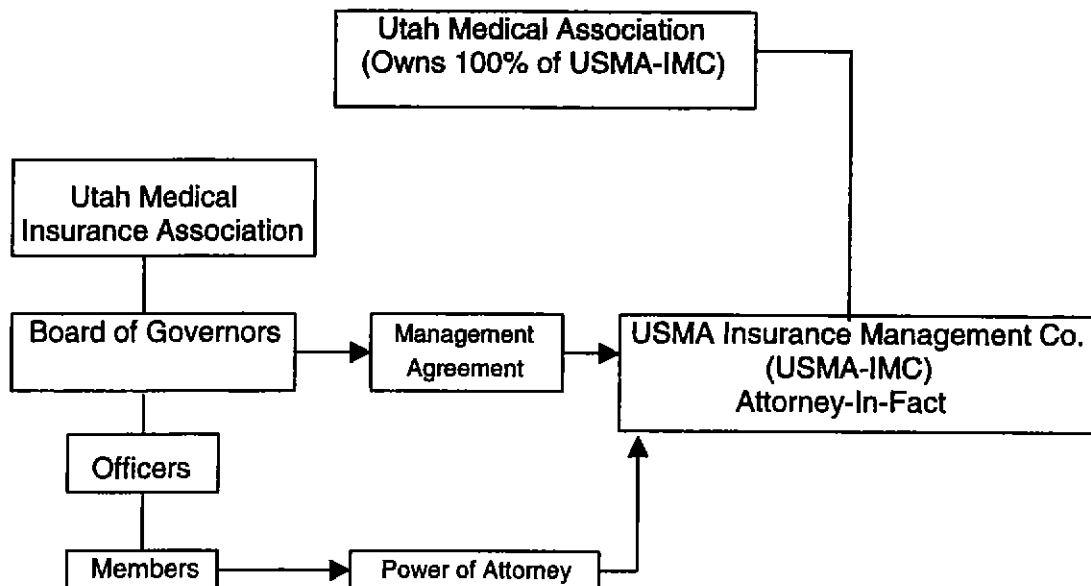
There were no acquisitions, mergers, disposals, dissolutions and purchases or sales through reinsurance that involved the Association during the examination period.

### Surplus Debentures

The Association was not party to any surplus debentures during the examination period.

## **AFFILIATED COMPANIES**

The Association is an interinsurance exchange managed by its attorney-in-fact, USMA Insurance Management Company (USMA-IMC), a Utah corporation wholly owned by the Utah Medical Association as follows:



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The board of governors was authorized to contract with the attorney-in-fact and had general supervision over the operations of the attorney-in-fact. The management agreement provides that the attorney-in-fact shall be responsible for the administration of the Association including the production, underwriting and servicing of insurance for Association members. As consideration for management services, the attorney-in-fact was entitled to 20% of the net billed premiums and underwriting fees as determined by the board of governors.

### **FIDELITY BOND AND OTHER INSURANCE**

The amount of fidelity insurance coverage recommended by the NAIC for an insurer of the Company's size is not less than \$700,000. As of December 31, 2003, the Association had fidelity coverage of \$500,000.

The Association also had additional insurance protection against loss from property and liability risks.

### **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Association had no employees during the examination period.

### **STATUTORY DEPOSITS**

Pursuant to U.C.A §31A-4-105, the Association was required to maintain a deposit in an amount equal to its minimum surplus requirement. The Association's minimum surplus requirement was \$1,600,000 at December 31, 2003. The special deposits maintained by or through regulatory agencies in the policyholders behalf, as of December 31, 2003, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Utah	U.S. Treasury Bond	\$ 1,600,000	\$ 1,790,496

Special deposits held through various state insurance departments and not held for the benefit of all policyholders as of December 31, 2003, were as follows:

<u>State</u>	<u>Description</u>	<u>Statement Value</u>	<u>Fair Value</u>
Nevada	U.S. Treasury Bond	\$ 200,000	\$ 292,562

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Policy Forms and Underwriting**

Since 1986, the Association has offered claims-made medical malpractice with coverage from \$100,000 to \$7,000,000 and related premises liability insurance to medical practitioners with coverage from \$100,000 to \$3,000,000. Coverage of property damage under premises liability was limited to \$50,000. Coverage to ancillary personnel was offered only under the physician's policy and was limited to medical care rendered while in the insured physicians' employment.

Office-based physicians are required to purchase professional premises liability insurance. Limits of liability are equal to the professional liability limits selected up to \$1,000,000 per claim \$3,000,000 aggregate. In addition, property damage of \$50,000 each occurrence and premises medical payment of \$1,000 per person, \$25,000 each accident are included. The Association does not underwrite coverage for office contents or personal property. The policy forms issued during the examination period were consistent with Department approved forms.

The attorney-in-fact provided the underwriting functions including appeals. Any final appeal was reviewed by the Association's board of governors.

### **Territory and Plan of Operation**

The Association was licensed and authorized to transact medical malpractice and related premises liability insurance in the following 5 states as of December 31, 2003:

Idaho	Montana	Nevada	Utah	Wyoming
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As of December 31, 2003, the Association marketed its products under a general agency plan in the state of Wyoming. In addition, the president of the attorney-in-fact was licensed in the states of Utah and Montana.

### **Advertising and Sales Material**

The Association markets insurance products through direct mailing and advertisement in the Medical Association's publications in the states in which the Association is licensed. These items were reviewed and determined acceptable for examination purposes.



### Treatment of Policyholders

During the examination period, there were no complaints filed with the Department. The examiners encountered no other items of concern regarding the treatment of policyholders. In addition, the Utah Medical Association maintained complaints which were reviewed by the Association's board on a regular basis.

## **REINSURANCE**

### Assumed

The Association neither maintained, nor entered into any assumed reinsurance arrangements during the examination period.

### Ceded

The Association has various excess of loss coverages and quota share treaties in effect during the examination period. The reinsurance coverages are provided through various reinsurers in England, Germany and Sweden.

As of December 31, 2003, the limits of coverage under the reinsurance treaties were as follows:

<u>Treaty</u>	<u>Type of Reinsurance</u>	<u>Policy Loss Limit</u>	<u>Aggregate Policy Limit</u>	<u>Retention</u>
Primary excess	Excess of Loss	\$ 1,000,000	\$ 3,000,000	\$500,000
Excess policy limits/extra contractual obligations	Excess of Loss	\$ 2,000,000	\$ 2,000,000	
First excess cession	Excess of Loss	\$ 2,000,000	\$ 4,000,000	
Second excess cession	Excess of Loss	\$ 6,000,000	\$ 8,000,000	
Catastrophe "awards made"	Excess of Loss	\$ 5,000,000	\$ 5,000,000	5%
Directors & officers/managed care e&o	Quota Share	\$ 2,000,000	\$ 2,000,000	5%
Medefense/fraud and abuse	Quota Share	\$ 25,000	\$ 25,000	10%

Primary excess coverage:

The treaty was on a claims made basis and was a three-year contract running through December 31, 2003. The additional \$2,000,000 of coverage provides for claims in excess of policy limits and extra contractual obligations.

First and second excess coverage:

The first and second excess of loss treaties were on a claims made basis. Each treaty was on a continuous contract subject to annual renewals. Premiums charged to the Association under these contracts were passed directly on to the policyholders. The Association retained 15% of the premiums collected from the policyholders as a commission and passed the remaining net premiums on to the reinsurers. The Association retained no risk associated in these optional layers of coverage.

Catastrophe excess of loss:

The catastrophe excess of loss treaty was on an "awards made" basis and provided coverage in excess of the primary and the first and second excess cession layers. This was a continuous contract subject to annual renewal.

Directors and officers/managed care e&o:

The directors and officers contract had limits subject to 5% retention by the Association. This was a continuous contract subject to annual renewal. Under the managed care errors and omissions quota share coverage, there were no policyholders carrying this coverage and no premiums were paid in 2003.

Medefense/fraud and abuse:

The Medefense contract was implemented in 1999 and covered legal expenses for fraud and abuse and had limits up to \$25,000 after the policyholder paid a deductible of \$1,000 per disciplinary proceeding and, if applicable, a 25% co-insurance per disciplinary proceeding. This was a continuous contract subject to annual renewal.

## **ACCOUNTS AND RECORDS**

The Association's general ledger and subsidiary records were maintained by use of electronic data processing systems. The Association had a back-up computer at the independent programmer's site in Salt Lake City, Utah. The system was complete with terminals and capable of operations independent from the system at the home office. Tapes, which were stored at the programmer's location, were updated weekly. In addition, back-up tapes were stored daily in a lock box at the Association's bank.

An examination trial balance, as of December 31, 2003, was prepared from the Association's computerized general ledger. Account balances were traced to annual statement exhibits and schedules. Individual account balances for the examination period were examined as deemed necessary.

## **FINANCIAL STATEMENT**

The following financial statements are included in the examination report:

Balance Sheet as of December 31, 2003

Summary of Operations as of December 31, 2003

Reconciliation of Capital and Surplus for the Years 2001 through December 31, 2003

The Comments on Financial Statement immediately following the financial statements are an integral part of the statements.

UTAH MEDICAL INSURANCE ASSOCIATION  
Balance Sheet as of  
December 31, 2003

**ASSETS**

	<u>Amount</u>
Bonds	\$119,899,674
Common stocks	5,561,804
Cash and short-term investments	11,543,838
Investment income due and accrued	1,555,428
Uncollected premiums and agents' balances in the course of collection	155,498
Amounts recoverable from reinsurers	1,703,042
Net deferred tax asset	1,031,584
Guaranty funds receivable or on deposit	356,646
Total assets	<u><u>141,807,514</u></u>

**LIABILITIES, SURPLUS AND OTHER FUNDS**

Losses	64,121,124
Loss adjustment expenses	15,766,581
Commissions payable, contingent commissions and other similar charges	30,266
Other expenses	3,727
Taxes, licenses and fees	706,087
Current federal and foreign income taxes	167,256
Unearned premiums	2,875,249
Advance premiums	6,303,928
Ceded reinsurance premiums payable	15,368,323
Provision for reinsurance	36,533
Total liabilities	<u>105,379,054</u>
Unassigned funds (surplus)	<u>36,428,460</u>
Total surplus as regards policyholders	<u>36,428,460</u>
Total liabilities, capital and surplus	<u><u>\$141,807,514</u></u>

**UTAH MEDICAL INSURANCE ASSOCIATION**  
**Summary of Operations**  
**as of December 31, 2003**

Premiums earned	\$31,850,520
Deductions:	
Losses incurred	19,432,484
Loss expenses incurred	14,490,041
Other underwriting expenses incurred	<u>2,643,489</u>
Net underwriting gain (loss)	<u>(4,715,494)</u>
Net investment income earned	4,463,141
Net realized capital gains	2,024,631
Net gain (loss) from agents' or premium balances charged off	(29,887)
Finance and service charges not included in premiums	<u>150,368</u>
Net income before dividends to policyholders and before federal and and foreign income taxes	<u>1,892,759</u>
Federal and foreign income taxes	<u>435,677</u>
Net Income	<u><u>\$1,457,082</u></u>

UTAH MEDICAL INSURANCE ASSOCIATION  
Reconciliation of Capital and Surplus  
for the Years 2001 through December 31, 2003

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Surplus as regards policyholders, December 31, prior year	\$32,774,313	\$ 33,674,526	\$ 33,820,270
Net income	780,510	284,458	1,457,082
Change in net unrealized capital gains (losses)	(132,384)	(421,186)	660,107
Change in net deferred income tax	213,593	576,718	161,066
Change in nonadmitted assets	(110,850)	(268,246)	339,468
Cumulative effect of changes in accounting principles	114,344		
Change in provision for reinsurance	<u>35,000</u>	<u>(26,000)</u>	<u>(9,533)</u>
Change in surplus as regards policyholders for the year	<u>900,213</u>	<u>145,744</u>	<u>2,608,190</u>
Surplus as regards policyholders, December 31, current year	<u><u>\$33,674,526</u></u>	<u><u>\$ 33,820,270</u></u>	<u><u>\$ 36,428,460</u></u>

## **COMMENTS ON FINANCIAL STATEMENT**

Comments on the financial statements were not considered necessary by the examination.

The surplus as regards policyholders reported by the Association in its 2003 regulatory annual financial statement blank was \$36,428,460. No adjustments were determined necessary for examination purposes.

U.C.A. §31A-5-211(2)(a) requires the Association to maintain minimum permanent surplus in the amount of \$1,600,000. The Association reported total adjusted capital of \$36,428,460 and an authorized control level risk-based capital (RBC) requirement of \$7,755,679 as of December 31, 2003.

## **SUMMARY**

Items of significance or special interest contained in this report are summarized below:

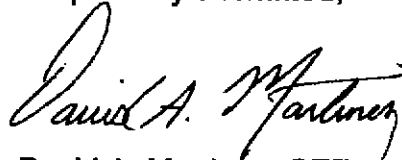
1. U.C.A. §31A-5-211(2)(a) requires the Association to maintain minimum permanent surplus in the amount of \$1,600,000. The Association reported total adjusted capital of \$36,428,460 and an authorized control level risk-based capital (RBC) requirement of \$7,755,679 as of December 31, 2003. (COMMENTS ON FINANCIAL STATEMENTS)



## CONCLUSION

The assistance and cooperation extended during the course of the examination by officers, employees and representatives of the Association are acknowledged. Mr. Faanu Laufiso, Financial Examiner, representing the Utah Insurance Department, participated in the examination. In addition to the undersigned, Mr. Glenn Taylor of Taylor-Walker and Associates, Inc., conducted the actuarial phases of the examination.

Respectfully submitted,

A handwritten signature in cursive script that reads "David A. Martinez".

David A. Martinez, CFE  
Examiner in Charge, representing the  
Utah Insurance Department